

The background of the slide is a photograph of a residential street. In the center, a two-story house with light blue siding and a white porch is the focal point. To its left is a house with light green siding, and to its right is a house with grey siding and a stone-textured lower level. The houses are set back from a paved street by a grassy lawn and a concrete sidewalk. Bare trees are visible in the foreground and background, suggesting a cooler season. A semi-transparent white rectangular box is overlaid on the center of the image, containing the title and date.

# **HB 3 in 30: Current Year Property Values and the Fast Growth Allotment**

August 1, 2019

## Agenda

- Why move to current year values?
- Changes to district budgeting and forecasting practices
  - Estimates for SY 2020
  - Estimates for SY 2021
- Fast Growth Allotment
- NIFA
- Next steps (TEA and Districts)



# Relevant Staff

## TEA Staff

### **Leo Lopez**

Associate Commissioner for School Finance

### **Al McKenzie**

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Assistant Director of Forecasting and Fiscal Analysis

# Why the move to current year values?

# Why change to current year values?

The use of current year values in conjunction with a fast growth allotment was one of the Texas Commission on Public School Finance's major recommendations:

- **“Making this property value change... will eliminate what is known as the formula lag, which can cause a misalignment of state and local revenues if/when local district property value growth slows/falls in the future.”**

Changing to current year values:

1. Ensures funding is based on student need, not property wealth
2. Allowed a higher basic allotment, which increased funding for the vast majority of districts

# What is the basic structure of school finance?

**STEP 1** **Formula Entitlement** .....

With some caveats, districts are entitled to an amount of funding based upon the students that are enrolled.

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# What is the basic structure of school finance?

**STEP 1**

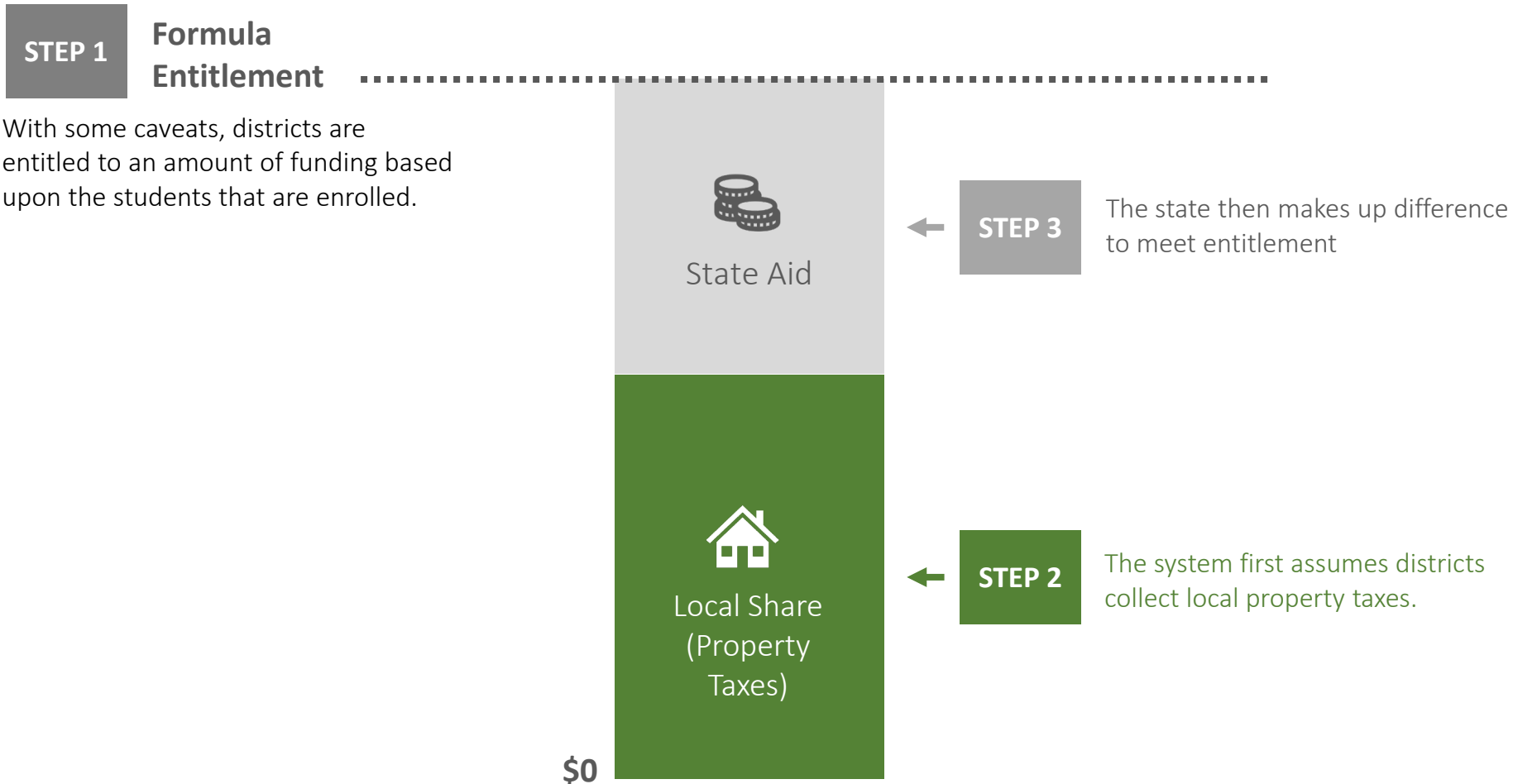
## Formula Entitlement

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With some caveats, districts are entitled to an amount of funding based upon the students that are enrolled.

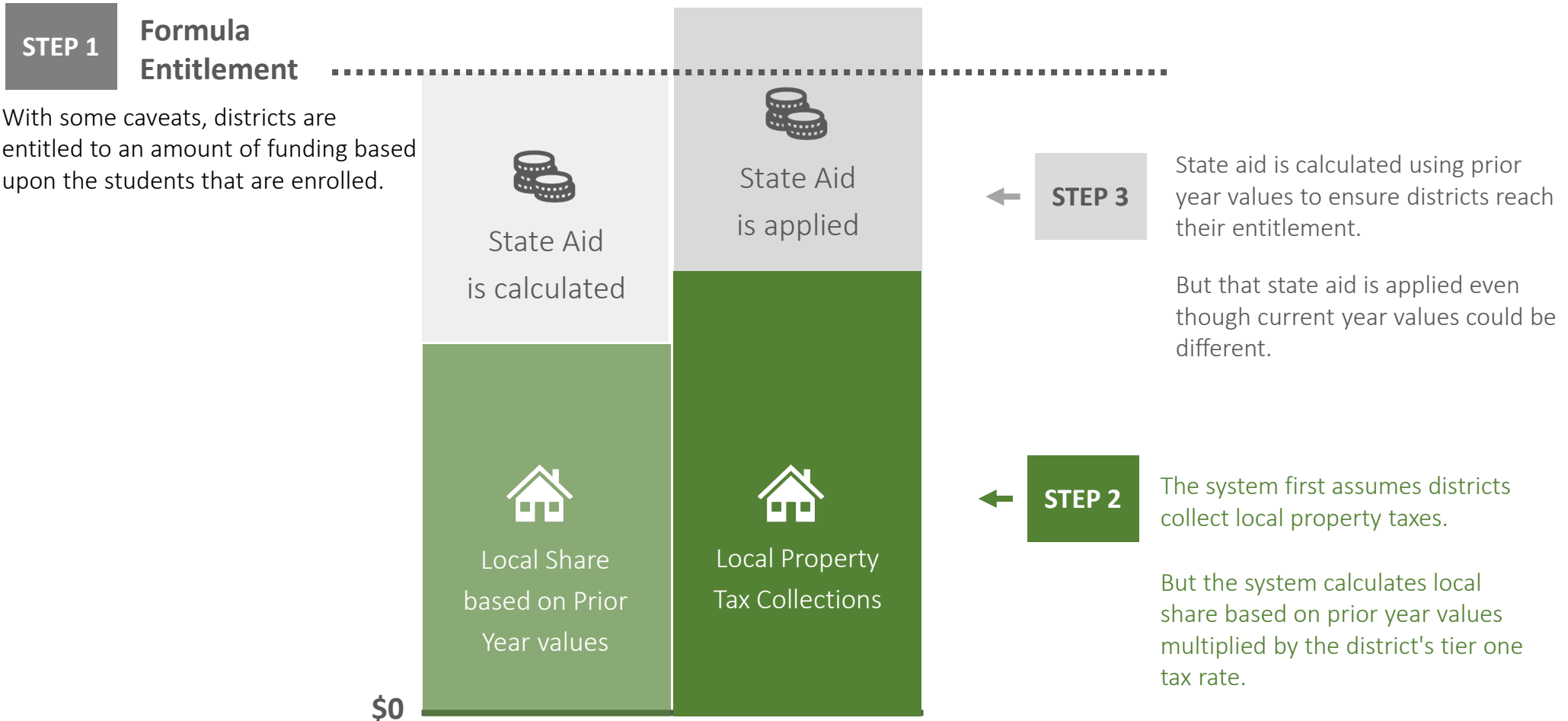


# What is the basic structure of school finance?





# How did the system work with prior year values?

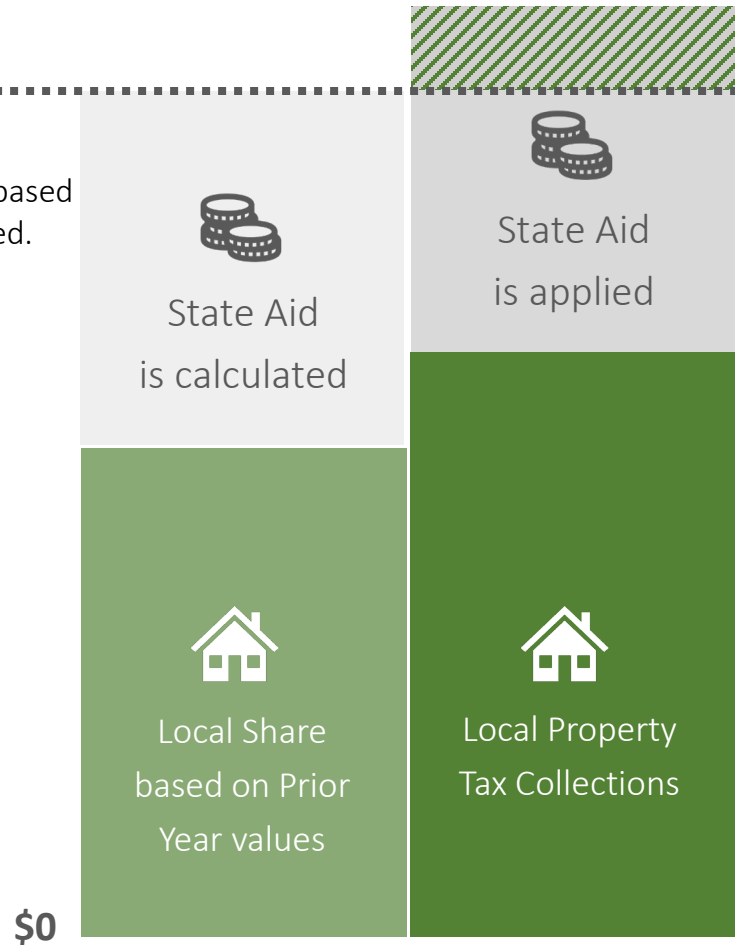


# How did the system work with prior year values?

**STEP 1**

**Formula Entitlement**

With some caveats, districts are entitled to an amount of funding based upon the students that are enrolled.



← In this case, this district's budget was larger than other districts in the state with identical student populations, because of impact of this "lag" money.

**STEP 3**

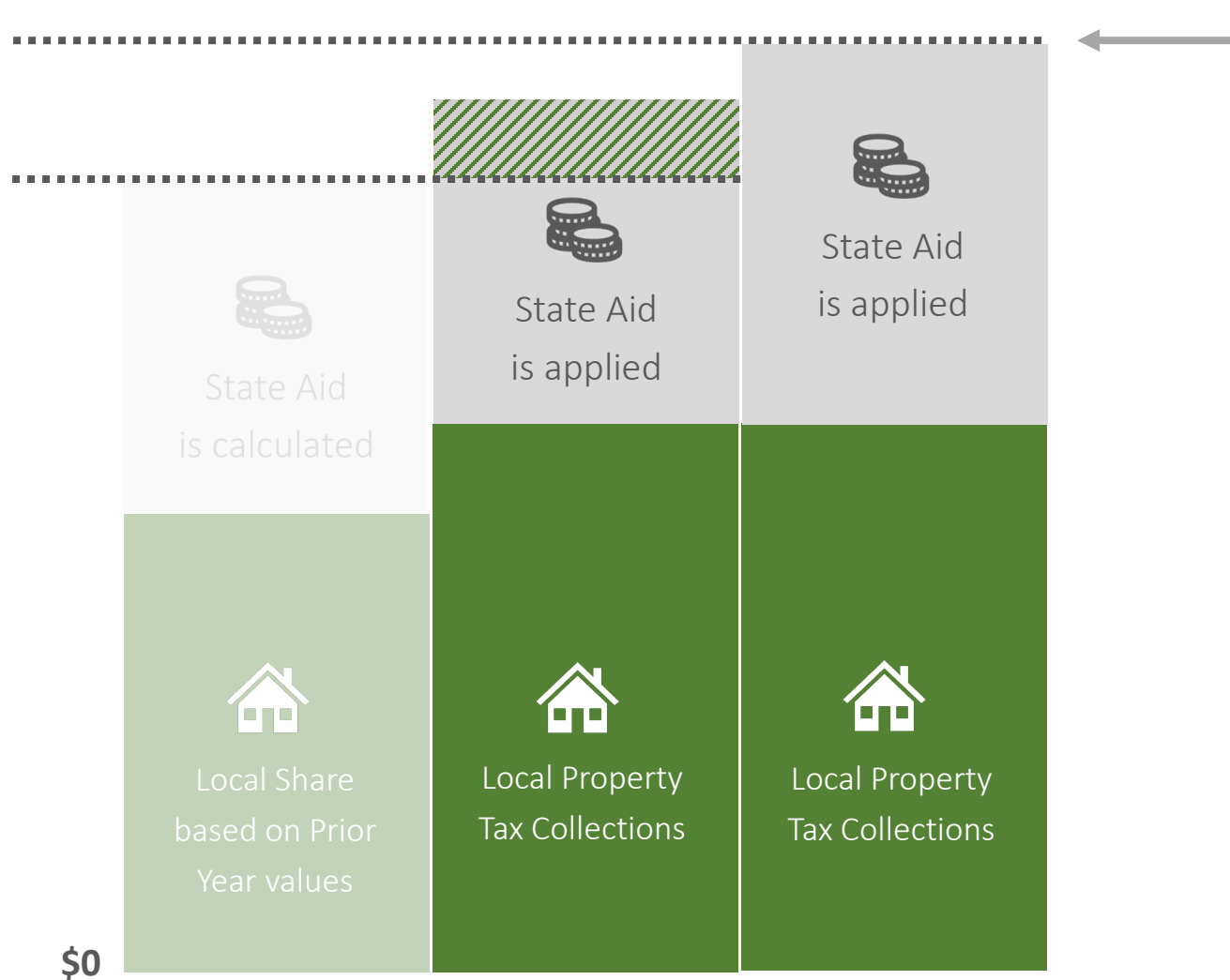
State aid is calculated using prior year values to ensure districts reach their entitlement.  
  
But that state aid is applied even though current year values could be different.

**STEP 2**

The system first assumes districts collect local property taxes.

# Most Districts Benefit from Current Year with BA Increase

## Formula Entitlement with Increased Basic Allotment



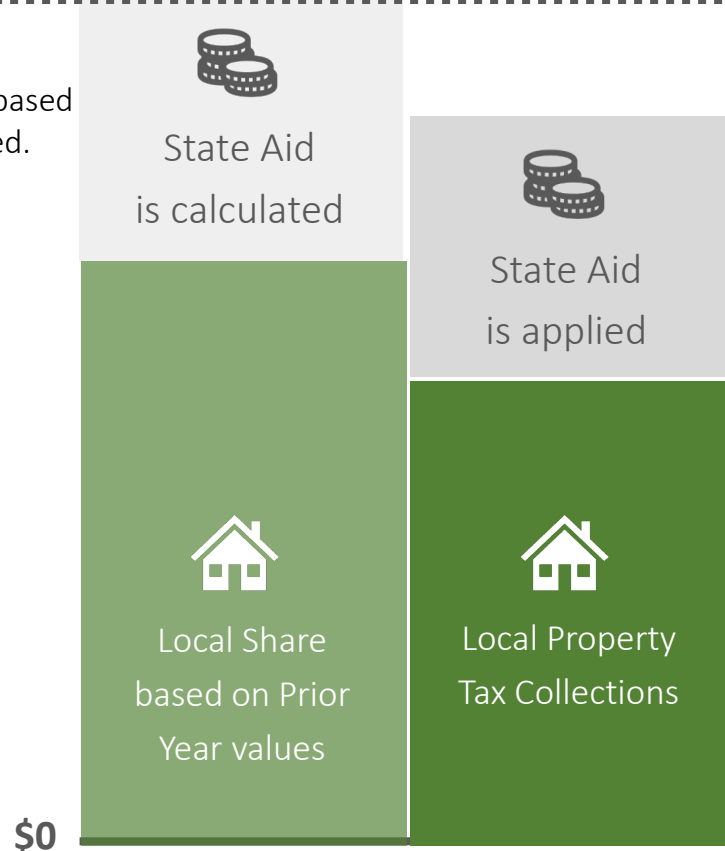
The increase in the basic allotment allowed by a switch to current year values means that this district, which had the benefit of lag money previously, still receives more overall funding with current year values.

# With prior year values, what happened when values decline?

**STEP 1**

**Formula Entitlement**

With some caveats, districts are entitled to an amount of funding based upon the students that are enrolled.



**STEP 3**

State aid is calculated using the prior year values to ensure districts reach their entitlement.

But that state aid is applied even though current year values are less.

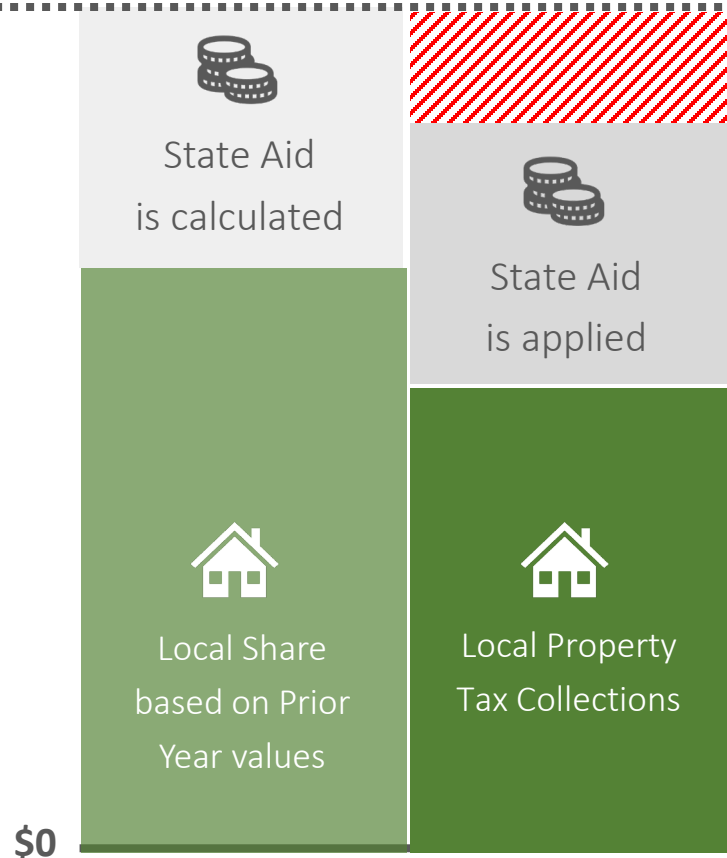
**STEP 2**

The system first assumes districts collect local property taxes.

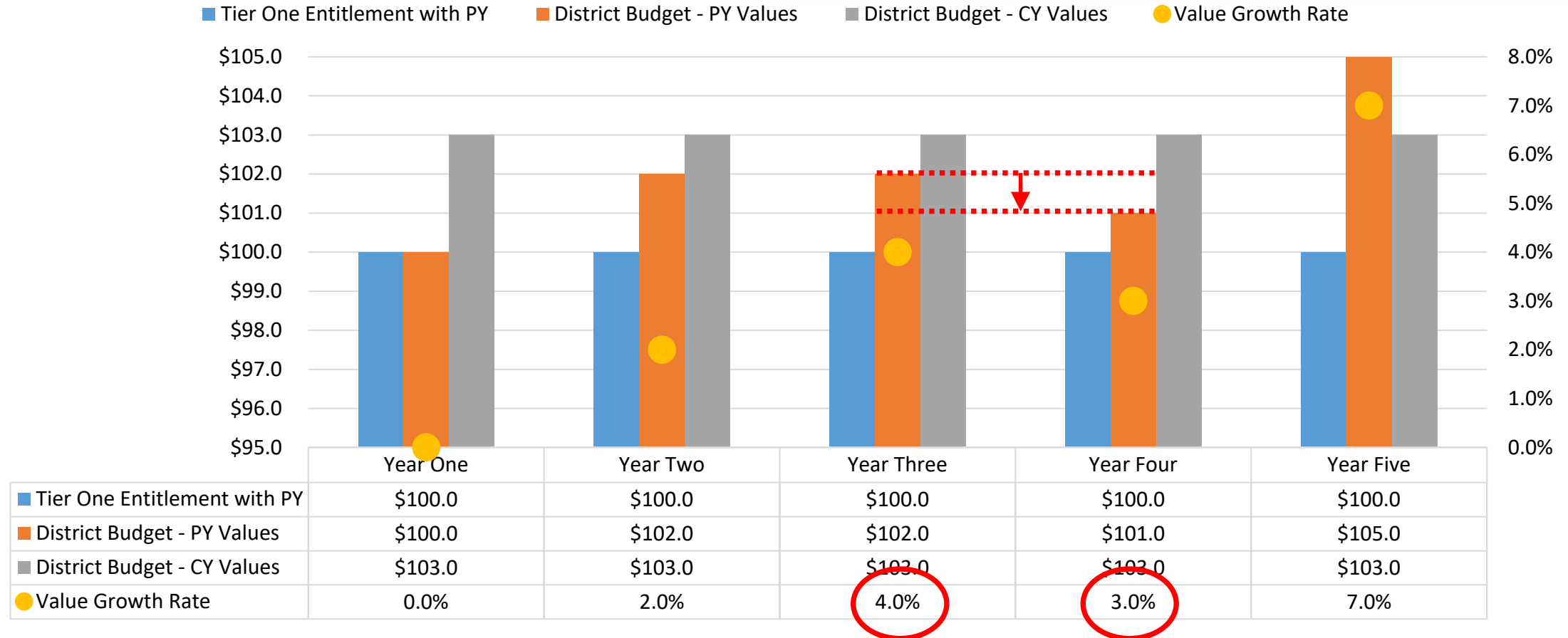
When looking at prior year values, the system assumes the districts has more taxes than they collected.

# With prior year values, what happened when values decline?

Formula  
Entitlement



The use of prior year values means that this district has less money than the assumed entitlement for other districts with identical student populations.

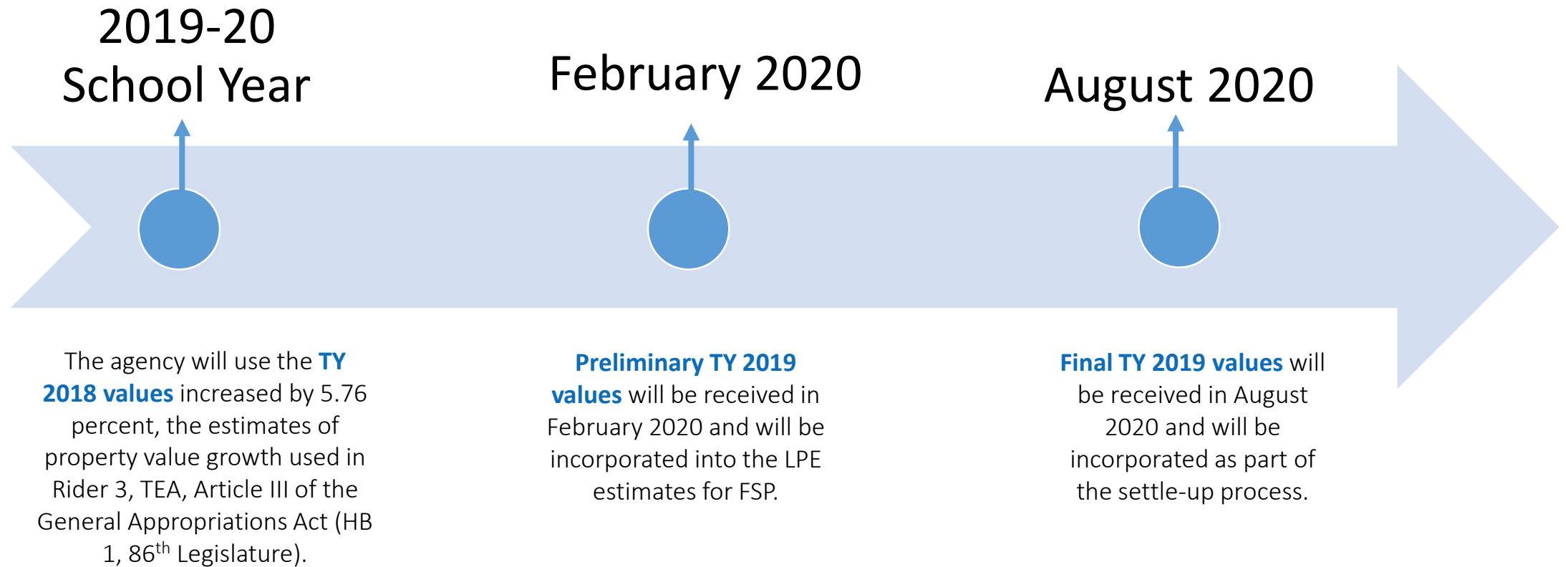


With prior year values, districts with property bases that consistently grew had funding that was consistently above assumptions of formula entitlement.

**But those budgets declined in any year that property value growth slowed relative to the prior year.**

# Changes to district budgeting and forecasting practices

# Current Year Values in FY 2020 – FSP Formulas



Districts wanting to estimate their final SY 2020 FSP State Aid could use their TY 2019 estimates of local taxable values from the appraisal district and convert to a 'T2' value by using historical ratios



# Estimating 2019 Comptroller Values using Local Appraisal Values for FY2020

**Estimated Tax Year 2019 "T2" =**

( Tax Year 2019 Local Appraised Value  $\div$   
Tax Year 2018 Local Appraised Value )

**×** Tax Year 2018 Comptroller Certified "T2" Values

\*Be sure to adjust for any Chapter 313 value limitations which are beginning or ending in TY2018 or TY2019

More information on how 313 agreements are impacted by HB 3 will come later this year.



# Estimating 2019 Comptroller Values using Local Appraisal Values for FY2020

**For example:**

**A district with an appraised value of \$10 million in TY 2018 and \$10.5 million in TY 2019 would have a growth rate of 5%**

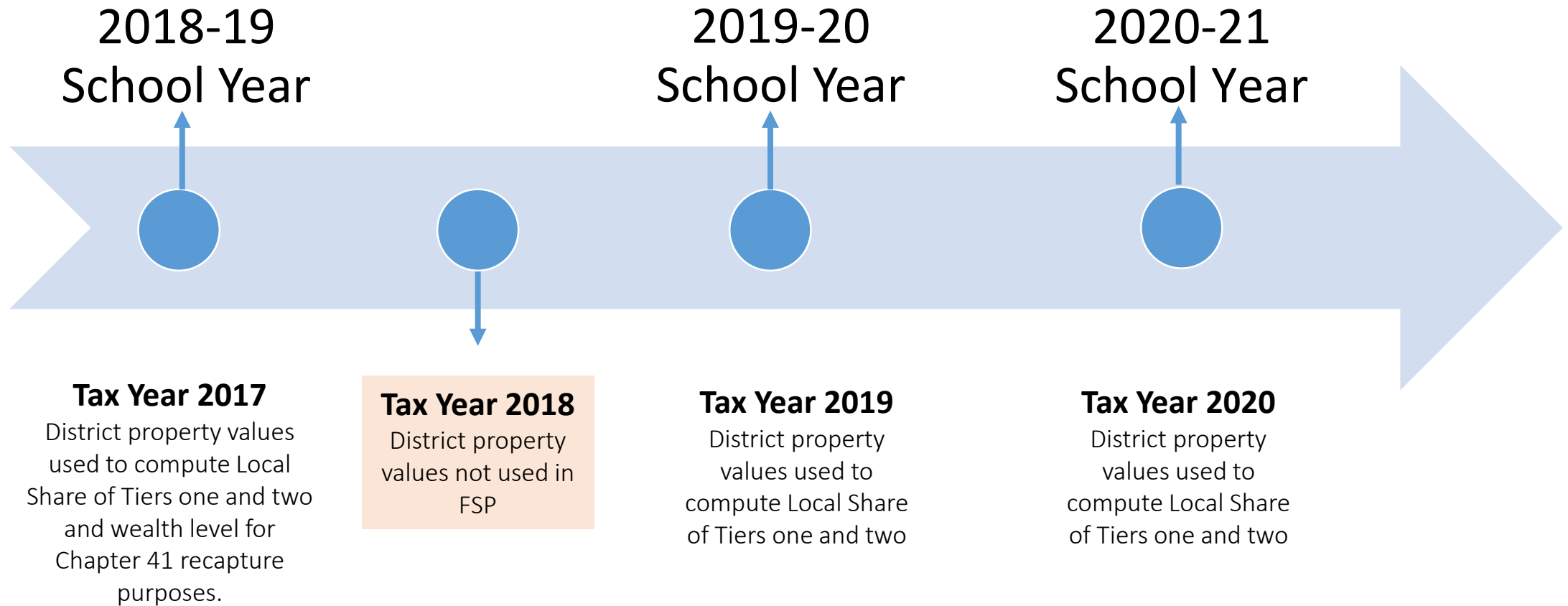
**If the district's TY 2018 T2 value was \$11 million, the projected 2019 T2 value would be  $\$11 \text{ million} * 1.05 = \$11.55 \text{ million}$**

# Improved Budget Certainty with Current Year Values

- Using current year values should ultimately simplify budgeting for districts because districts should always receive their entitlement. Only the state and local split will change as a result of value changes
- Unanticipated changes either up or down in property values will no longer change the total amount received, only the state and local split
- Districts can be more confident in receiving the amount to which they are entitled based on their student counts, regardless of what happens to property values

Prior Law	Current Law
-Must have good projections of students	-Must have good projections of students
-Must have good projections of taxes	

# FAQ – School Years and associated tax years



# Fast Growth Allotment

# Why a Fast Growth Allotment?

- The Texas Commission on Public School Finance also recommended that as part of the move to using current year property values in the school finance system.
- The 86<sup>th</sup> Legislature created a Fast Growth Allotment to recognize that fast-growing districts had extra one-time expenses associated with rapid student enrollment growth.

# What is the Fast Growth Allotment?

**Sec. 48.111. FAST GROWTH ALLOTMENT.** A school district in which the growth in student enrollment in the district over the preceding three school years is in the top quartile of student enrollment growth in school districts in the state for that period, as determined by the commissioner, is entitled to an annual allotment equal to the basic allotment multiplied by 0.04 for each student in average daily attendance.

For the 2019-2020 school year, enrollment growth from FY2017 to FY2019 will be used.

# Projected Rule Adoption Schedule

## August / September 2019

- Proposal to be published in the Texas Register
- Preliminary list of fast growth districts will be published alongside the rule

## September/October 2019

- 30-Day comment period

## November 2019

- Adoption to be filed with Texas Register

## December 2019

- Effective date of Rule



# Fast Growth Allotment Funding Details

- ✓ Funds will begin to flow on the summary of finances beginning with the September 2019 FSP payment
  - Based on preliminary amounts from the filed rule methodology
  - Using estimated ADA data for the 2019-2020 school year.
- ✓ Final amounts will be based on final ADA data as submitted in PEIMS.
- ✓ Preliminary list of districts eligible for the allotment for the upcoming school year will be made available by April/May of the preceding school year.

# Budget Planning with Fast Growth Allotment

- ✓ Districts must pay attention to their ranking on the list and budget conservatively
- ✓ Treat Fast Growth Allotment funds **as seed money to pay for one-time expenses** associated with surging student enrollment, as opposed to relying on the allotment for recurring expenditures

**Key Point:** Districts can come into & out of the fast growth allotment across years, depending on student enrollment growth rates. This makes the Fast Growth Allotment a variable source of funding, so steps should be taken to plan expenditures accordingly.

# New Instructional Facility Allotment (NIFA)

# HB 3 Changes to NIFA

## HB 3:

- ✓ Increases the NIFA maximum annual appropriation from \$25 million to \$100 million to align with the increase to the per student multiplier (from \$250 to \$1,000) that occurred in 2017.
- ✓ While the NIFA appropriation has increased, the per student multiplier is still dependent on the number of applications. If more applications are received than would be covered by the appropriation, the per student funding could be less than \$1,000.
- ✓ For 2019-20 applications, it is estimated that funding will be sufficient to reach the \$1,000 per student multiplier.

# Next Steps

## TEA Next Steps

1. Data Collection – TEA will be standing up a new data collection in the Spring/Summer of 2020 related to local taxable property values.
2. Rulemaking – *Fast Growth Allotment*
  - ✓ Target Filing Date: [September 2019](#)

# House Bill 3: Resources

Stay tuned for the most up-to-date information from TEA on the implementation of House Bill 3



[tea.texas.gov/HB3](http://tea.texas.gov/HB3)

Visit [tea.texas.gov/HB3](http://tea.texas.gov/HB3) for the most up-to-date information



[HB3info@tea.texas.gov](mailto:HB3info@tea.texas.gov)

Email [HB3info@tea.texas.gov](mailto:HB3info@tea.texas.gov) with any questions

A photograph of a classroom scene. A male teacher in a light blue shirt is standing and has his hands raised. Several young students are seated at a table, also with their hands raised. The background shows a classroom with blue shelves, a bookshelf, and a bulletin board with colorful drawings. A white semi-transparent box is overlaid on the center of the image, containing text.

# Thank you!

Additional questions: Email [HB3info@tea.texas.gov](mailto:HB3info@tea.texas.gov)  
*(include the topic name in the subject line)*